

CALAVERAS COUNTY

Audit Report

ROAD FUND

July 1, 2003, through June 30, 2009



JOHN CHIANG
California State Controller

December 2011



JOHN CHIANG
California State Controller

December 9, 2011

Tom Tryon, Chair
Board of Supervisors
Calaveras County
891 Mountain Ranch Road
San Andreas, CA 95249-9709

Dear Mr. Tryon:

The State Controller's Office (SCO) audited Calaveras County's Road Fund for the period of July 1, 2003, through June 30, 2009.

The county accounted for and expended Road Fund moneys in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and the SCO's Accounting Standards and Procedures for Counties manual, except for our adjustment of \$49,399. We made the adjustments because the county did not reimburse the Road Fund for non-road expenditures incurred during fiscal year (FY) 2007-08 and FY 2008-09. In addition, we identified procedural findings affecting the Road Fund in this audit report.

The county accounted for and expended FY 2003-04 through FY 2008-09 Transportation Equity Act of the 21st Century Matching and Exchange moneys and Senate Bill 1435 allocations from the regional transportation planning agency in compliance with Article XIX of the California Constitution and Streets and Highways Code section 182.6.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

cc: Rebecca Callen, Calaveras County Auditor-Controller
Thomas Garcia, Director of Public
Works and Transportation, Calaveras County
Gilbert Petrissans, Chief, Local Program Accounting Branch
Department of Transportation

Contents

Audit Report

Summary	1
Background.....	1
Objectives, Scope, and Methodology	2
Conclusion.....	3
Follow-Up on Prior Audit Findings.....	3
Views of Responsible Officials	3
Restricted Use	4
Schedule 1—Reconciliation of Road Fund Balance	5
Schedule 2—Reconciliation of TEA-21 and RTPA Balances.....	6
Findings and Recommendations.....	7
Attachment—County’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited Calaveras County's Road Fund for the period of July 1, 2003, through June 30, 2009 (fiscal year [FY] 2003-04 through FY 2008-09).

Our audit disclosed that the county accounted for and expended Road Fund moneys in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and the SCO's Accounting Standards and Procedures for Counties manual, except for our adjustment of \$49,399 and procedural findings identified in this report.

In addition, we audited Transportation Equity Act of the 21st Century (TEA-21) Matching and Exchange moneys and Senate Bill (SB) 1435 allocations from the regional transportation planning agency (RTPA) for FY 2003-04 through FY 2008-09, at the request of the California Department of Transportation (Caltrans). The TEA-21- and RTPA-funded projects were verified to be for road-related purposes and are eligible expenditures. The TEA-21 and RTPA moneys received by the county were accounted for and expended in compliance with Article XIX of the California Constitution and Streets and Highways Code section 182.6.

Background

We conducted an audit of the county's Road Fund in accordance with Government Code section 12410. The Road Fund was established by the county boards of supervisors in 1935, in accordance with Streets and Highways Code section 1622, for all amounts paid to the county out of moneys derived from the highway users tax fund. A portion of the Federal Forest Reserve revenue received by the county is also required to be deposited into the Road Fund (Government Code section 29484). In addition, the county board of supervisors may authorize the deposit of other sources of revenue into the Road Fund. Once moneys are deposited into the Road Fund, it is restricted to expenditures made in compliance with Article XIX of the California Constitution and Streets and Highways Code sections 2101 and 2150.

The Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 created a federal program designed to increase flexibility in federal funding for transportation purposes by shifting the funding responsibility to state and local agencies. The TEA-21 is a continuation of this program. The funds are restricted to expenditures made in compliance with Article XIX of the California Constitution. Caltrans requested that we audit these expenditures to ensure the county's compliance.

Objectives, Scope, and Methodology

The objectives of our audit of the Road Fund, TEA-21 Matching and Exchange moneys, and RTPA revenues were to determine whether:

- Highway users tax apportionments, TEA-21 Matching and Exchange moneys, and RTPA revenues received by the county were accounted for in the Road Fund, a special revenue fund;
- Expenditures were made exclusively for authorized purposes or safeguarded for future expenditure;
- Reimbursements of prior Road Fund expenditures were identified and properly credited to the Road Fund;
- Non-road-related expenditures were reimbursed in a timely manner;
- The Road Fund cost accounting is in conformance with the SCO's Accounting Standards and Procedures for Counties manual, Chapter 9, Appendix A; and
- Expenditures for indirect overhead support service costs were within the limits formally approved in the Countywide Cost Allocation Plan.

Our audit objectives were derived from the requirements of Article XIX of the California Constitution, the Streets and Highways Code, the Government Code, and the SCO's Accounting Standards and Procedures for Counties manual. To meet the objectives, we:

- Gained a basic understanding of the management controls that would have an effect on the reliability of the accounting records of the Road Fund, by interviewing key personnel and testing the operating effectiveness of the controls;
- Verified whether all highway users tax apportionments, TEA-21 Matching and Exchange moneys, and RTPA revenues received were properly accounted for in the Road Fund, by reconciling the county's records to the State Controller's and Caltrans' payment records;
- Analyzed the system used to allocate interest and determined whether the interest revenue allocated to the Road Fund was fair and equitable, by interviewing key personnel and testing a sample of interest calculations;
- Verified that unauthorized borrowing of Road Fund cash had not occurred, by interviewing key personnel and examining the Road Fund cash account entries; and
- Determined, through testing, whether Road Fund expenditures were in compliance with Article XIX of the California Constitution and with the Streets and Highways Code, and whether indirect cost allocation plan charges to the Road Fund were within the limits approved by the SCO's Division of Accounting and Reporting, County Cost Plan Unit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the county's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, we examined transactions on a test basis to determine whether they complied with applicable laws and regulations and were properly supported by accounting records. We considered the county's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit disclosed that Calaveras County accounted for and expended Road Fund moneys in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and the SCO's Accounting Standards and Procedures for Counties manual, except for the item shown in Schedule 1 and described in the Findings and Recommendations section of this report. The finding requires an adjustment of \$49,399 to the county's accounting records.

We verified that the TEA-21- and RTPA-funded projects were for road- and transportation-related purposes, and are eligible expenditures. The TEA-21 and RTPA moneys received by the county were accounted for and expended in compliance with Article XIX of the California Constitution and the Streets and Highways Code.

Follow-up on Prior Audit Findings

Findings noted in our prior audit report, issued on July 9, 2004, have been satisfactorily resolved by the county.

Views of Responsible Officials

We issued a draft audit report on April 28, 2011. The Honorable Rebecca Callen, County Auditor-Controller, responded by letter dated June 30, 2011, stating that it found the draft report accurate. The county also requested clarification on Findings 3 and 4. The requested clarification is included in the SCO's comment to the findings. The county's response is included as an attachment in this final audit report.

Restricted Use

This report is solely for the information and use of Calaveras County, the Calaveras County Board of Supervisors, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

December 9, 2011

**Schedule 1—
Reconciliation of Road Fund Balance
July 1, 2008, through June 30, 2009**

	<u>Amount</u>
Beginning fund balance per county	\$ 3,537,090
Revenues	<u>7,798,650</u>
Total funds available	11,335,740
Expenditures	<u>(7,718,412)</u>
Ending fund balance per county	3,617,328
SCO adjustment:	
Finding 1—Unreimbursed non-road expenditures	<u>49,399</u>
Ending fund balance per audit	<u><u>\$ 3,666,727</u></u>

**Schedule 2—
Reconciliation of TEA-21 and RTPA Balance
July 1, 2003, through June 30, 2009**

	<u>Amount</u>
Beginning balance per county	\$ —
Revenues:	
TEA-21 Matching and Exchange funds	1,540,056
RTPA funds	<u>271,464</u>
Total revenues	<u>1,811,520</u>
Total funds available	1,811,520
Expenditures:	
Maintenance	(1,051,589)
SCO audit adjustment	<u>—</u>
Ending balance per audit	<u><u>\$ 759,931</u></u>

NOTE: The TEA-21 and RTPA moneys have been accounted for and expended within the Road Fund.

Findings and Recommendations

FINDING 1— Unreimbursed non- road expenditures

The county did not reimburse the Road Fund \$49,399 for expenditures on non-road work for other county departments and outside parties for fiscal year (FY) 2007-08 and FY 2008-09 (\$2,385 and \$47,014, respectively).

Streets and Highways Code section 2101 states:

All money in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for all of the following: (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for non-motorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes.

Streets and Highways Code section 2150 states:

All amounts paid to each county of the Highway Users Tax Fund shall be deposited in its road fund. The board may deposit in said fund any other money available for roads. All money received by a county from the Highway Users Tax Fund and all money deposited by a county in its road fund shall be expended by the county exclusively for county roads for the purposes specified in Section 2101 or for other public street and highway purposes as provided by law.

The State Controller's Office (SCO) has permitted expenditures of Road Fund money for non-road work as a convenience to counties, provided that the expenditures are billed and reimbursed in a timely manner (30 to 60 days after completion of the work).

Recommendation

The county should reimburse the Road Fund \$49,399 for the expenditures incurred for other county departments and outside parties. In addition, the county should establish procedures to ensure that future no-road billings are collected and the Road Fund is reimbursed in a timely manner.

County's Response

The county concurred with the finding.

**FINDING 2—
General overhead not
consistently applied to
projects**

During FY 2008-09, the county did not consistently apply general road overhead to Road Fund projects. Division 7100—Roads Operations and Maintenance did not use a general overhead factor in any of its activities.

The SCO's Accounting Standards and Procedures for Counties manual, Chapter 9, Appendix A, Section 21, prescribes that general road overhead be applied as a percentage of labor. All road and non-road projects should be assessed a share of general overhead.

Recommendation

The county should establish procedures to ensure that future Road Fund projects include general road overhead.

County's Response

The county concurred with the finding.

**FINDING 3—
Lack of a separate
revenue account for
RTPA exchange funds**

The county did not establish a separate revenue account within the Road Fund to deposit all Regional Transportation Planning Agency (RTPA) exchange revenues from the Calaveras Council of Governments (CCOG). During FY 2003-04, RTPA exchange allocations were deposited in revenue account #4408, State Transportation Enhancement Act, and account #4521, Federal Aid Secondary.

Caltrans' Local Assistance Program Guidelines, Chapter 18, Section 5, Financial Controls, states that cities and counties must establish a separate revenue account for payments allocated by a RTPA. Using a separate and special revenue account facilitates the audit process and provides a mechanism to identify the use of funds and remaining balances.

Recommendation

The county should establish a separate revenue account to deposit all future RTPA exchange payments from CCOG.

County's Response

The county concurred with the finding; however, the Auditor-Controller wanted clarification on whether to establish a special revenue fund for CCOG payments (outside the Road Fund) or a revenue line item within the Road Fund.

SCO's Comment

As stated above, the county should establish a separate revenue account within the Road Fund to deposit all future RTPA exchange payments from CCOG.

**FINDING 4—
Road Fund loan to
County Service Area #4
Fund**

During FY 2006-07, the Road Fund provided a temporary loan to County Service Area #4 (Diamond Twenty) for emergency road repairs necessary as a result of major storm damage. Reimbursement of \$355,627 was expected from the Federal Emergency Management Agency (FEMA); however, at the end of the audit fieldwork, the Road Fund had not been reimbursed.

As stated in Finding 1, Road Fund moneys can be expended only for road or road-related purposes as outlined in Streets and Highways Code sections 2102 and 2150.

Recommendation

The county should actively seek a timely reimbursement from FEMA to solve this issue. In the future, the county should not loan Road Fund moneys to other governmental agencies.

County's Response

The county concurred with the finding; however, the Auditor-Controller wanted clarification as to whether the SCO considers the county itself as a separate agency from the Road Fund.

SCO's Comment

As stated in the second paragraph, Road Fund moneys can be expended only for road or road-related purposes as outlined in Streets and Highways Code sections 2101 and 2150. Loaning Road Fund moneys to another fund/agency over several years is not an appropriate use of legally restricted funds.

**FINDING 5—
Non-compliance with
accounting standards
and procedures for
counties**

During FY 2008-09, Road Fund projects were recorded in different cost centers at the same time. Thus, compiling construction, maintenance, and non-road project charges required manually adding project costs in the Administration, Undistributed Engineering, Construction, Maintenance, and Reimbursable cost centers.

The SCO's Accounting Standards and Procedures for Counties manual, Chapter 9, Appendix A, sections 10 through 13, details the necessary cost accounts, cost centers, and projects for the Road Fund. When properly established, the cost centers for the Road Fund provide the necessary data for the Annual Road Report and meet the cost accounting requirements as stated in the SCO manual.

Recommendation

The county should analyze its cost centers, projects, and activities set-up to comply with the SCO manual requirements.

County's Response

The county concurred with the finding.

**FINDING 6—
High clearing account
variances**

A review of the 2008-09 Annual Road Report, Schedule 7 (Clearing Account Activity) disclosed high variances for labor, (5.81%); general road overhead (72.25%); and inventory (143.21%). The year-end variances for labor and general overhead represented over-distribution of costs to road projects.

The SCO Manual, Chapter 9, Appendix A, sections 14-21 prescribe the method used in development and operation of the labor, general overhead, and inventory clearing accounts. Per section 24, the acceptable range for the labor variance should be 5% and 10% for general overhead and inventory variances.

Recommendation

The county should analyze the labor, general road overhead, and inventory clearing accounts and update the respective applied labor and general overhead rates for FY 2010-11.

County's Response

The county concurred with the finding.

**Attachment—
County's Response to
Draft Audit Report**



COUNTY OF CALAVERAS

Office of AUDITOR-CONTROLLER

Rebecca Callen
Auditor-Controller

Monday, June 20, 2011

Steven Mar, Chief
Local Government Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

Re: Road Fund Audit – Calaveras County

Dear Mr. Mar:

The Auditor Controller's office is in receipt of the draft audit report prepared by your office after the audit of Calaveras County's Road Fund for the period July 1, 2003 through June 30, 2009.

This office has reviewed the draft report and finds that the draft is accurate.

I need clarification on two items.

- Per Finding 3, the recommendation is to establish a separate revenue account. However, in reading the finding, it seems that you are asking for a separate Special Revenue Fund to hold CCOG payments. Are you recommending a separate fund outside the Road Fund or a revenue line item within the Road Fund?
- Per Finding 4, the recommendation is that the Road Fund moneys should not be loaned to other governmental agencies. Does the SCO consider the County itself as a separate agency from the Road Fund? The County is looking for less expensive short term cash flow borrowing mechanisms besides a TRAN. Should the Road Fund be in a position to offer short term lending, the County General Fund has interest in doing such.

Please forward a copy of the report to our office once final.

If you have any questions, please do not hesitate to contact me at (209)754-6343

Sincerely,

A handwritten signature in black ink, appearing to read "Rebecca Callen", written over a horizontal line.

Rebecca Callen
Auditor-Controller

Cc: Thomas Garcia, Director of Public Works and Transportation

**State Controller's Office
Division of Audits
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Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>